

IOWA STATE UNIVERSITY

Digital Repository

Apparel, Events and Hospitality Management
Conference Proceedings and Presentations

Apparel, Events and Hospitality Management

11-2011

Chinese Textile and Clothing Manufacturers in Transition: Investigation of Internal Factors Related to Firm's Business Performance

Yao Lu

Iowa State University

Elena E. Karpova

Iowa State University, karpova@iastate.edu

Follow this and additional works at: http://lib.dr.iastate.edu/aeshm_conf



Part of the [Business Administration, Management, and Operations Commons](#), [Fashion Business Commons](#), and the [International Business Commons](#)

Recommended Citation

Lu, Yao and Karpova, Elena E., "Chinese Textile and Clothing Manufacturers in Transition: Investigation of Internal Factors Related to Firm's Business Performance" (2011). *Apparel, Events and Hospitality Management Conference Proceedings and Presentations*. Paper 39.
http://lib.dr.iastate.edu/aeshm_conf/39

This Conference Proceeding is brought to you for free and open access by the Apparel, Events and Hospitality Management at Digital Repository @ Iowa State University. It has been accepted for inclusion in Apparel, Events and Hospitality Management Conference Proceedings and Presentations by an authorized administrator of Digital Repository @ Iowa State University. For more information, please contact digirep@iastate.edu.

Chinese Textile and Clothing Manufacturers in Transition: Investigation of Internal Factors Related to Firm's Business Performance

Yao Lu and Elena Karpova
Iowa State University

Keywords: China, TC, factor, business performance

The Chinese textile and clothing (TC) industry has undergone some noticeable changes in the last decade (OECD, 2004). To offset the continually increasing cost of labor and raw materials and to compensate for the loss of low-cost production advantages, both firms and the government have been actively exploring new competing strategies, i.e., adopting advanced technology and machinery, focusing on marketing and branding (OECD, 2004). In light of these changes, it is essential to understand how Chinese TC firms compete during the transition period. In particular, what internal firm factors contribute to Chinese TC manufacturers' business performance? Although previous studies (e.g., Eusebio, Andreu, & Belbeze, 2007) have identified such factors in the Chinese TC industry, they need to be re-examined given the recent changes in the industry. In addition, extant investigation of these factors was mostly based on case studies or secondary data, without sufficient empirical verifications (Lau et al., 2009). Therefore, the purpose of this study was to empirically identify internal factors that determine Chinese TC manufacturers' business performance in the period of the industry transition from the one relying on low cost to the one competing on high value-added activities (OECD, 2004).

According to the resource based theory (RBT), firm's performance is defined by its tangible resources (e.g., firm's size and capital), and intangible capabilities (e.g., branding and managerial know-how) (Barney, 2001). Firm internal factors related to these resources and capabilities thus conceive firm's strategy and determine its performance (Eusebio et al., 2007). A review of RBT and TC industry literature resulted in a group of internal factors that might be relevant to business performance of Chinese TC manufacturers. More specifically, size, experience, and human resource (retention of quality employees) were identified as internal factors related to tangible capabilities. Product quality level, R&D investment, branding initiatives, major distribution channel, supplier relationships, and involvement in export were identified as internal factors related to intangible capabilities.

The data for this study was extracted from a larger dataset that was collected for a research project organized by a county government, for which the current study was a part of the research focus. A total of 2,500 questionnaires were distributed to TC manufacturers in one county in southeastern China. The county is known for its well developed TC industry and a high concentration of small and medium TC companies. A total of 1,086 companies returned the surveys, and 795 of them were usable for statistical analyses. Logistic regression was employed to investigate what factors determine Chinese TC manufacturers' business performance. In line with Andras & Srinivasan (2003), firm's business performance is assessed by its annual profit

margin. Accordingly, profit margin was dependent variable, and the aforementioned internal factors were independent variables.

Fifty-three percent of the firms were engaged in manufacturing textile products, 37% in clothing production, and the rest 19% were active in manufacturing both. Despite various challenges, 55% of the surveyed manufacturers reported to have profitable operations, 24% were able to breakeven, while the rest of the sample (21%) reported losses. The results of the logistic regression showed that the factors of product quality level, brand initiatives, type of major distribution channel, type of supplier relationships, and involvement level in export were significant predictors of Chinese TC manufacturers' business performance. At the same time, firm's size, experience, R&D level, and human resource were not found to be significant predictors of the manufacturers' business performance.

Research findings indicated that Chinese TC manufacturers were more likely to achieve higher business performance if they (a) adopted e-commerce as a major distribution channel; (b) shared more information with their suppliers relating to product development and consumer demand forecast; and (c) had introduced their own brands in the market. Conversely, focusing on lower quality products and higher involvement in export were associated with non-profitable Chinese TC manufacturers. This research identified internal firm's factors that can either facilitate or hinder business performance of Chinese TC manufacturer' during a critical time of defining a new competitive niche for the world's largest TC industry. Recommendations for improving Chinese TC manufacturers' performance and industry upgrading were developed based on the research findings. The results of the study might be useful for other TC industries that are or will be transitioning from competing on low-cost manufacturing to building a competitive advantage on higher value-added activities. In addition, this study added to the body of knowledge on internal factors relevant to TC firms' business performance. Unclear relationships between the internal factors (size, human resource, R&D level and experience) and firm's business performance warrant further examination.

References:

- Andras, T. L., & Srinivasan, S. S. (2003). Advertising Intensity and R&D Intensity: Differences across Industries and Their Impact on Firm's Performance. *International Journal of Business and Economics*, 2(2), 167-177.
- Barney, J. B. (2001). Resource-based theories of competitive advantage: A ten-year retrospective on the resource-based view. *Journal of Management*, 27 (6), 643-657.
- Eusebio, R., Andreu, J. L., & Belbeze, M. P. L. (2007). Internal key factors in export performance. *Journal of Fashion Marketing and Management*, 11 (1), 9-23.
- Lau, C.K, To, K.M, Zhang, Z., & Chen, J. (2009). Determinants of competitiveness: Observations in China's Textile and Apparel Industries. *China & World Economy*, 17 (2), 45-64.
- OECD. (2004). A new world map in textile and clothing. Retrieved July 2, 2010, from <http://www.oecd.org/dataoecd/43/14/33824605.pdf>.